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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Montgomery
Montgomery, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Montgomery, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Montgomery's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Montgomery, as of February 29, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 5 and pages 17 through 20, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
December 18, 2008

VILLAGE OF MONTGOMERY MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village of Montgomery's annual financial report presents the Management's Discussion and Analysis (MD&A) of the Village's financial activities during the fiscal year ended February 29, 2008. The analysis focuses on the Village's financial performance as a whole. It is intended to be read as part of the Village's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Village of Montgomery exceeded its liabilities at February 29, 2008, by \$747,388. Of this amount, \$392,878 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors. The net assets of the Village increased by \$64,566 during the year.
- An \$80,925 grant was received from the Federal Emergency Management Agency (FEMA) for the purchase of fire equipment.

USING THIS REPORT

The annual report consists of a series of financial statements including other requirements as follows:

1. Management's Discussion & Analysis introduces the basic financial statements and provides an analytical overview of the Village's financial activities.
2. Government-wide financial statements consist of a *statement of net assets* and a *statement of activities*. These provide information about the activities of the Village as a whole and represent an overall view of the Village's finances.
3. Fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the most significant funds.
4. Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
5. Required supplementary information, other than the MD&A, provides information about the required budgetary comparison information.

REPORTING THE VILLAGE AS A WHOLE

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

One of the most important questions asked about the Village's finances is: Is the Village as a whole better off or worse off as a result of the year's activities? The statement of net assets and the statement of activities report information on the Village as a whole and its activities in a way that helps answer this question. These statements include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. The two statements report the Village's *net assets* - - the difference between assets and liabilities - - as one way to measure the Village's financial health, or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial

VILLAGE OF MONTGOMERY MANAGEMENT'S DISCUSSION AND ANALYSIS

health is improving or deteriorating. Additional factors such as changes in the Village's property tax base and the condition of the Village's infrastructure are also important in making this decision.

REPORTING THE VILLAGE'S MOST SIGNIFICANT FUNDS

The fund financial statements provide detailed information about the Village's most significant funds, not the Village as a whole. Some funds are required to be established by state law and by bond covenants. The Village may establish other funds to account for and manage revenue and expenditures that are related to specific projects (i.e. capital improvements), grants or other purposes.

Governmental Funds - All of the Village's basic services are included in governmental funds. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. Governmental funds include the General Fund, Special Revenue Funds (Major Street and Local Street) and the Fire Fund. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The government fund statements provide a detailed, short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following table shows the Village's net assets as of February 28, 2007 and February 29, 2008:

ASSETS	<u>2-28-07</u>	<u>2-29-08</u>
Current assets	\$ 420,106	\$ 408,077
Capital assets, net of accumulated depreciation	<u>270,601</u>	<u>354,510</u>
Total assets	<u>\$ 690,707</u>	<u>\$ 762,587</u>
LIABILITIES		
Current liabilities	\$ 7,885	\$ 15,199
Long-term liabilities	<u>0</u>	<u>0</u>
Total liabilities	<u>\$ 7,885</u>	<u>\$ 15,199</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 270,601	\$ 354,510
Restricted	0	0
Unrestricted	<u>412,221</u>	<u>392,878</u>
Total net assets	<u>\$ 682,822</u>	<u>\$ 747,388</u>

VILLAGE OF MONTGOMERY MANAGEMENT'S DISCUSSION AND ANALYSIS

A portion of the Village's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less related debt (if any). Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Total unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$392,878.

The following table provides the Village's change in net assets for the years ended February 28, 2007 and February 29, 2008:

	<u>2006-07</u>	<u>2007-08</u>
Program Revenue		
Charges for services	\$ 26,670	\$ 25,408
Operating grants and contributions	50,425	49,976
Capital grants and contributions	0	80,925
General revenue		
Property taxes	33,093	34,818
State Shared Revenue	40,619	39,742
Investment Income	3,922	7,438
Other	<u>2,085</u>	<u>3,446</u>
Total revenue	<u>\$ 156,814</u>	<u>\$ 241,753</u>
Expenses		
General Government	\$ 48,866	\$ 43,006
Public Safety	70,438	81,105
Public Works	77,127	50,906
Culture & Recreation	<u>3,365</u>	<u>2,170</u>
Total expenses	<u>\$ 199,796</u>	<u>\$ 177,187</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (42,982)</u>	<u>\$ 64,566</u>

INDIVIDUAL GOVERNMENTAL FUND ANALYSIS

As the Village of Montgomery completed its year, its governmental funds reported a total fund balance of \$392,878, which is less than the \$412,221 fund balance at February 28, 2007.

- The General Fund, the operating fund for the Village, ended the year with a \$161,303 fund balance, compared to the prior year ending fund balance of \$182,262.
- Major Street Fund Balance increased by \$17,006.
- Local Street Fund Balance increased by \$7,637.
- Fire Fund Balance decreased by \$23,027.

BUDGETARY HIGHLIGHTS

Fund balance in the Fire Fund decreased by \$23,027 due to the purchase of a new Grass Rig for \$21,097. Expenditures were over budget in the Fire Fund due to increases in insurance rates and utilities as well as extra fire officer training for Ice Rescue and First Responders.

VILLAGE OF MONTGOMERY MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Village's investment in capital assets, including land, buildings, equipment, vehicles, roadways and other infrastructure represents the value of the resources utilized to provide services to citizens. Capital assets totaled \$354,510 (net of accumulated depreciation) at February 29, 2008. See the notes to the financial statements for more information about the Village's capital assets. The Village has no long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Major Streets budgeted for some drain repair that has not been kept up-to-date
- Local Streets budgeted for some drain repair that has not been kept up-to-date, along with new culvert on Moonlot Street.
- Fire Fund allowed additional money for rising cost of fuel.
- General Fund allowed \$18,745 for new equipment - - possibly a new tractor and bush hog.

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors, creditors, and other interested parties with a general overview of the Village's finances and operating activities. If you have any questions or require additional information, please contact the Village of Montgomery, P.O. Box 151, Montgomery, Michigan 49255.

VILLAGE OF MONTGOMERY
STATEMENT OF NET ASSETS
FEBRUARY 29, 2008

	Governmental <u>Activities</u>
ASSETS	
Current assets	
Cash – checking and savings	\$ 275,659
Certificates of deposit	98,945
Taxes receivable	6,835
Due from other governmental units	<u>26,638</u>
Total current assets	<u>\$ 408,077</u>
Noncurrent assets	
Capital assets	
Land	\$ 500
Buildings	10,500
Equipment	179,595
Vehicles	333,004
Less: accumulated depreciation	<u>(169,089)</u>
Net capital assets	<u>\$ 354,510</u>
Total assets	<u>\$ 762,587</u>
LIABILITIES	
Current liabilities	
Accounts payable	<u>\$ 15,199</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 354,510
Unrestricted	<u>392,878</u>
Total net assets	<u>\$ 747,388</u>
Total liabilities and net assets	<u>\$ 762,587</u>

See accompanying notes to the basic financial statements.

VILLAGE OF MONTGOMERY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED FEBRUARY 29, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Primary government:					
Governmental activities:					
General Government	\$ 43,006	\$ 334	\$ 0	\$ 0	\$ (42,672)
Public Safety	81,105	25,074	0	80,925	24,894
Public Works	50,906	0	49,976	0	(930)
Culture & Recreation	<u>2,170</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,170)</u>
Total governmental activities	<u>\$ 177,187</u>	<u>\$ 25,408</u>	<u>\$ 49,976</u>	<u>\$ 80,925</u>	<u>\$ (20,878)</u>
General revenue:					
Property taxes levied for general purposes					\$ 34,818
State shared revenue					39,742
Unrestricted investment income					7,438
Miscellaneous					<u>3,446</u>
Total general revenue					<u>\$ 85,444</u>
Change in net assets					\$ 64,566
Net assets - beginning					<u>682,822</u>
Net assets - ending					<u>\$ 747,388</u>

See accompanying notes to the basic financial statements.

VILLAGE OF MONTGOMERY
BALANCE SHEET
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fire</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash – checking and savings	\$ 73,467	\$ 125,780	\$ 56,720	\$ 19,692	\$ 275,659
Certificates of deposit	83,945	10,000	5,000	0	98,945
Taxes receivable	6,835	0	0	0	6,835
Due from other governmental units	<u>12,255</u>	<u>6,716</u>	<u>2,260</u>	<u>5,407</u>	<u>26,638</u>
Total assets	<u>\$ 176,502</u>	<u>\$ 142,496</u>	<u>\$ 63,980</u>	<u>\$ 25,099</u>	<u>\$ 408,077</u>
LIABILITIES					
Accounts payable	<u>\$ 15,199</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 15,199</u>
FUND BALANCES					
Unreserved	\$ 161,303	\$ 142,496	\$ 63,980	\$ 24,808	\$ 392,587
Designated for fire truck	<u>0</u>	<u>0</u>	<u>0</u>	<u>291</u>	<u>291</u>
Total fund balances	<u>\$ 161,303</u>	<u>\$ 142,496</u>	<u>\$ 63,980</u>	<u>\$ 25,099</u>	<u>\$ 392,878</u>
Total liabilities and fund balances	<u>\$ 176,502</u>	<u>\$ 142,496</u>	<u>\$ 63,980</u>	<u>\$ 25,099</u>	<u>\$ 408,077</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
February 29, 2008

Fund Balances - total governmental funds	\$ 392,878
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	523,599
Deduct: accumulated depreciation	<u>(169,089)</u>
Net assets of governmental activities	<u>\$ 747,388</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fire</u>	Total Governmental Funds
REVENUE					
Property taxes	\$ 34,818	\$ 0	\$ 0	\$ 0	\$ 34,818
Tax administration fee	334	0	0	0	334
State shared revenue	39,742	37,390	12,586	0	89,718
Charges for services	0	0	0	25,074	25,074
Interest income	3,093	3,567	714	64	7,438
Grants	0	0	0	80,925	80,925
Rent	7,174	0	0	0	7,174
Miscellaneous	<u>3,446</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,446</u>
Total revenue	<u>\$ 88,607</u>	<u>\$ 40,957</u>	<u>\$ 13,300</u>	<u>\$ 106,063</u>	<u>\$ 248,927</u>
EXPENDITURES					
General Government	\$ 43,006	\$ 0	\$ 0	\$ 0	\$ 43,006
Public Safety	0	0	0	41,616	41,616
Public Works	17,345	16,451	13,163	0	46,959
Culture & Recreation	2,170	0	0	0	2,170
Capital Outlay	<u>18,745</u>	<u>0</u>	<u>0</u>	<u>115,774</u>	<u>134,519</u>
Total expenditures	<u>\$ 81,266</u>	<u>\$ 16,451</u>	<u>\$ 13,163</u>	<u>\$ 157,390</u>	<u>\$ 268,270</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 7,341</u>	<u>\$ 24,506</u>	<u>\$ 137</u>	<u>\$ (51,327)</u>	<u>\$ (19,343)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in	\$ 0	\$ 0	\$ 7,500	\$ 28,300	\$ 35,800
Operating transfers out	<u>(28,300)</u>	<u>(7,500)</u>	<u>0</u>	<u>0</u>	<u>(35,800)</u>
Total other financing sources (uses)	<u>\$ (28,300)</u>	<u>\$ (7,500)</u>	<u>\$ 7,500</u>	<u>\$ 28,300</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	\$ (20,959)	\$ 17,006	\$ 7,637	\$ (23,027)	\$ (19,343)
FUND BALANCES - Beginning	<u>182,262</u>	<u>125,490</u>	<u>56,343</u>	<u>48,126</u>	<u>412,221</u>
FUND BALANCES - Ending	<u>\$ 161,303</u>	<u>\$ 142,496</u>	<u>\$ 63,980</u>	<u>\$ 25,099</u>	<u>\$ 392,878</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
Reconciliation of Statement of Revenue, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended February 29, 2008

Net changes in fund balances - total governmental funds	\$ (19,343)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	134,519
Deduct: depreciation expense	<u>(50,610)</u>

Change in net assets of governmental activities	<u>\$ 64,566</u>
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The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Montgomery comprises a population of approximately 386 residents in Hillsdale County, Michigan. It operates under the Council-President form of government and provides the following services as authorized by its charter: public safety, highways and streets, sanitation, parks and recreation, public improvements, planning and zoning, and general administrative services.

The accounting policies of the Village of Montgomery conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The following is a summary of significant accounting policies used by the Village of Montgomery:

Government-Wide and Fund Financial Statements

Government-Wide Financial Statements - The statement of net assets and the statement of activities display financial information about the Village as a whole, excluding fiduciary activities. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Village's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the function and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property taxes, State Revenue Sharing, and other items not properly included among program revenues are reported as general revenues. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Village.

Fund Financial Statements - Fund financial statements report detailed information about the Village. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds (if any) are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Measurement Focus and Basis of Accounting

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity (between or within funds). Revenue is recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measureable and available. Revenue is considered to be available if it is to be collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Under the modified accrual basis, property taxes, State revenue sharing, interest, and grants are considered to be both measurable and available at fiscal year-end. Grants received before the eligibility requirements are met are recorded as deferred revenue.

Financial Statement Presentation

The Village uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Village functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

The Village reports the following major governmental funds:

General Fund - used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the laws of the State of Michigan.

Special Revenue Funds - used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for specified purposes (i.e. Major Streets, Local Streets, and Fire Fund).

Assets, Liabilities, and Net Assets

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less.

Capital Assets - General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Village maintains a capitalization threshold of \$1,000. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	50 years
Equipment	7 - 15 years
Vehicles	10 - 15 years

Interfund Balances - On fund financial statements, receivables and payables resulting from short-term interfund loans are reported as "due to/from other funds." These amounts are eliminated on the government-wide statement of net assets.

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Interfund Activity - Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. The legal level of budgetary control has been established by the Village Council at the line-item level. Any budgetary modifications may only be made by resolution of the Village Council. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements:

- 1) Prior to February 29, the Village Council proposes budgets for the fiscal year beginning March 1.
- 2) A public hearing is conducted during February to obtain taxpayer comments.
- 3) Prior to February 28, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the Village, transfer of appropriations may be made by the authorization of the Village Council.
- 5) The Village Council is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

During the year, the Village incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund	Village Council – Payroll taxes	\$ 1,000	\$ 3,134	\$ 2,134
	Elections – Supplies	250	282	32
	Clerk – Miscellaneous	0	3,680	3,680
	Buildings & Grounds – Insurance	9,000	9,472	472
	Public Works – Supplies	1,500	4,274	2,774
	Library	0	500	500
	Administration – Payroll taxes	54	166	112

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)

<u>Fund</u>	<u>Description</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Fire	Wages	7,000	7,268	268
	Payroll taxes	1,000	2,021	1,021
	Gas and oil	2,500	3,247	747
	Insurance	11,500	11,670	170
	Utilities	3,500	3,547	47
	Training	2,000	2,775	775

NOTE 3 - DEPOSITS AND INVESTMENTS

Michigan laws authorize the Village to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Village's investment policy makes no further limitation on investments. As of February 29, 2008, the Village's deposits are in accordance with statutory authority.

Following are the components of the Village's bank deposits at February 29, 2008:

Checking accounts	\$ 31,388
Savings accounts	244,271
Certificates of deposit	<u>98,945</u>
Total	<u>\$ 374,604</u>

The Village's deposits and investments are subject to several types of risk, which are examined in more detail as follows:

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Village minimizes credit risk by limiting investments to the types of securities allowed by State law.

Concentration of Credit Risk - The Village places no limit on the amount the Village may invest in any one issuer.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a formal policy for custodial credit risk. At February 29, 2008, the carrying amount of the Village's bank deposits was \$374,604 and the bank's balance was \$427,985. Of the bank balance, \$205,000 was covered by federal depository insurance and \$222,985 was uninsured.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village has no policy that specifically addresses interest rate risk.

Foreign Currency Risk - The Village is not authorized to invest in investments which have this type of risk.

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 4 - RECEIVABLES

Receivables at February 29, 2008, consists of State revenue sharing and property taxes, which are considered collectible in full.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended February 29, 2008, was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 500	\$ 0	\$ 0	\$ 500
Capital assets being depreciated				
Buildings	\$ 10,500	\$ 0	\$ 0	\$ 10,500
Equipment	84,918	94,677	0	179,595
Vehicles	293,162	39,842	0	333,004
Less accumulated depreciation	(118,479)	(50,610)	0	(169,089)
Total capital assets being depreciated, net	\$ 270,101	\$ 83,909	\$ 0	\$ 354,010
Total capital assets, net	\$ 270,601	\$ 83,909	\$ 0	\$ 354,510

Depreciation expense was charged to functions/programs of the Village as follows:

Public Safety	\$ 39,489
Public Works	11,121
Total	<u>\$ 50,610</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

There were no amounts due between funds at February 29, 2008.

Transfers between funds consisted of the following:

Transfer from General Fund to Fire Fund	\$ 28,300
Transfer from Major Streets to Local Streets	7,500

The transfer from General Fund to Fire Fund was for the purpose of fire operations and truck replacement. The transfer from Major Streets to Local Streets was for the purpose of shifting resources from Major to Local as allowed by State law.

NOTE 7 - PROPERTY TAXES

Real estate and personal property taxes are recorded as revenue in amounts equal to the total taxes levied. The total levy for 2007 was 8.5041 mills on a total state taxable value of approximately \$4,010,000. Village properties are assessed as of July 31 (the lien date) - taxes levied July 1 of the succeeding year and are due without interest to September 15. After the final collection date, unpaid real property taxes are added to the county delinquent tax rolls. Personal property taxes unpaid continue to be collected by the Village Treasurer.

VILLAGE OF MONTGOMERY
NOTES TO FINANCIAL STATEMENTS
FEBRUARY 29, 2008

NOTE 8 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries. The Village has purchased commercial insurance for each of these areas of risk. There have been no significant reductions in insurance coverages, and settled claims have not exceeded the amount of insurance coverage for the current or the three prior years.

NOTE 9 – SUBSEQUENT EVENTS

In June, 2008, the Internal Revenue Service levied a \$25,046 assessment against the Village for late filing penalties, late payment penalties, and interest on six years' worth of payroll tax returns (Form 941). After this levy was applied, a total of \$13,481 was refunded and/or credited back to the Village. The net amount of \$11,565 has been included as a liability in these financial statements - - \$3,680 as a current year expenditure/expense and \$7,885 as an adjustment to beginning fund balance/net assets.

VILLAGE OF MONTGOMERY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	Actual Over (Under) <u>Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Property taxes	\$ 32,858	\$ 32,858	\$ 34,818	\$ 1,960
Tax administration fee	0	0	334	334
State Shared Revenue	35,000	35,000	39,742	4,742
Interest	660	660	3,093	2,433
Equipment rent	7,000	7,000	7,174	174
Miscellaneous	<u>0</u>	<u>0</u>	<u>3,446</u>	<u>3,446</u>
Total revenue	<u>\$ 75,518</u>	<u>\$ 75,518</u>	<u>\$ 88,607</u>	<u>\$ 13,089</u>
EXPENDITURES				
General Government				
Village Council				
Trustee salaries	\$ 4,950	\$ 4,950	\$ 4,290	\$ (660)
Payroll taxes	1,000	1,000	3,134	2,134
Miscellaneous	<u>15,000</u>	<u>9,200</u>	<u>0</u>	<u>(9,200)</u>
Total	<u>20,950</u>	<u>15,150</u>	<u>7,424</u>	<u>(7,726)</u>
President				
Salary	<u>1,825</u>	<u>1,825</u>	<u>1,715</u>	<u>(110)</u>
Elections				
Wages	500	500	352	(148)
Contract services	500	500	326	(174)
Supplies	250	250	282	32
Printing and publishing	<u>200</u>	<u>200</u>	<u>0</u>	<u>(200)</u>
Total	<u>1,450</u>	<u>1,450</u>	<u>960</u>	<u>(490)</u>
Clerk				
Salary	4,825	4,825	4,715	(110)
Supplies	1,000	1,000	611	(389)
Attorney fees	3,500	3,500	1,033	(2,467)
Audit	1,000	1,000	0	(1,000)
Communications	1,000	1,000	132	(868)
Miscellaneous	<u>0</u>	<u>0</u>	<u>3,680</u>	<u>3,680</u>
Total	<u>11,325</u>	<u>11,325</u>	<u>10,171</u>	<u>(1,154)</u>
Treasurer				
Salary	3,575	3,575	3,465	(110)
Supplies	400	400	351	(49)
Contract Services	600	600	139	(461)
Mileage	<u>250</u>	<u>250</u>	<u>0</u>	<u>(250)</u>
Total	<u>4,825</u>	<u>4,825</u>	<u>3,955</u>	<u>(870)</u>

VILLAGE OF MONTGOMERY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND (continued)
FOR THE YEAR ENDED FEBRUARY 29, 2008

Buildings and Grounds				
Wages	\$ 2,000	\$ 2,000	\$ 656	\$ (1,344)
Supplies	1,200	1,200	836	(364)
Insurance	9,000	9,000	9,472	472
Utilities	1,500	1,500	467	(1,033)
Repairs and maintenance	50,000	50,000	6,471	(43,529)
Licenses and fees	<u>1,500</u>	<u>1,500</u>	<u>879</u>	<u>(621)</u>
Total	<u>65,200</u>	<u>65,200</u>	<u>18,781</u>	<u>(46,419)</u>
Public Works				
Wages	3,000	3,000	88	(2,912)
Supplies	1,500	1,500	4,274	2,774
Equipment repairs	3,500	3,500	3,408	(92)
Sanitary landfill	3,000	3,000	2,769	(231)
Storm drains	5,000	5,000	2,324	(2,676)
Street lights	<u>5,000</u>	<u>5,000</u>	<u>4,482</u>	<u>(518)</u>
Total	<u>21,000</u>	<u>21,000</u>	<u>17,345</u>	<u>(3,655)</u>
Recreation and Culture				
Parks				
Wages	3,000	3,000	720	(2,280)
Supplies	500	500	346	(154)
Utilities	400	400	262	(138)
Trees	2,500	2,500	0	(2,500)
Insurance	<u>1,000</u>	<u>1,000</u>	<u>342</u>	<u>(658)</u>
Total	<u>7,400</u>	<u>7,400</u>	<u>1,670</u>	<u>(5,730)</u>
Library	<u>0</u>	<u>0</u>	<u>500</u>	<u>500</u>
Capital Outlay	<u>41,000</u>	<u>41,000</u>	<u>18,745</u>	<u>(22,255)</u>
Total expenditures	<u>\$ 174,975</u>	<u>\$ 169,175</u>	<u>\$ 81,266</u>	<u>\$ (87,909)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (99,457)</u>	<u>\$ (93,657)</u>	<u>\$ 7,341</u>	<u>\$ 100,998</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>(22,500)</u>	<u>(28,400)</u>	<u>(28,300)</u>	<u>(100)</u>
Total other financing sources (uses)	<u>\$ (22,500)</u>	<u>\$ (28,400)</u>	<u>\$ (28,300)</u>	<u>\$ (100)</u>
NET CHANGE IN FUND BALANCES	<u>\$(121,957)</u>	<u>\$(122,057)</u>	<u>\$ (20,959)</u>	<u>\$ 101,098</u>
FUND BALANCES - Beginning	<u>171,052</u>	<u>171,052</u>	<u>168,781</u>	<u>(2,271)</u>
FUND BALANCES - Ending	<u>\$ 49,095</u>	<u>\$ 48,995</u>	<u>\$ 147,822</u>	<u>\$ 98,827</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREETS FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 30,000	\$ 30,000	\$ 37,390	\$ 7,390
Interest	<u>1,800</u>	<u>1,800</u>	<u>3,567</u>	<u>1,767</u>
Total revenue	<u>\$ 31,800</u>	<u>\$ 31,800</u>	<u>\$ 40,957</u>	<u>\$ 9,157</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Wages	4,500	4,500	696	(3,804)
Payroll taxes	73	73	77	4
Supplies	14,700	14,700	0	(14,700)
Insurance	1,500	1,500	1,453	(47)
Traffic lights & signs	3,000	3,000	0	(3,000)
Contracted services	80,000	80,000	7,098	(72,902)
Equipment Rental	6,000	6,000	4,843	(1,157)
Winter maintenance				
Wages	2,000	2,000	556	(1,444)
Payroll taxes	73	73	62	(11)
Administration				
Wages	1,500	1,500	1,500	0
Payroll taxes	<u>54</u>	<u>54</u>	<u>166</u>	<u>112</u>
Total expenditures	<u>\$ 113,400</u>	<u>\$ 113,400</u>	<u>\$ 16,451</u>	<u>\$ (96,949)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (81,600)</u>	<u>\$ (81,600)</u>	<u>\$ 24,506</u>	<u>\$ 106,106</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 0	\$ 0	\$ 0	\$ 0
Operating transfers out	<u>(7,500)</u>	<u>(7,500)</u>	<u>(7,500)</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ (7,500)</u>	<u>\$ (7,500)</u>	<u>\$ (7,500)</u>	<u>\$ 0</u>
NET CHANGE IN FUND BALANCES	<u>\$ (89,100)</u>	<u>\$ (89,100)</u>	<u>\$ 17,006</u>	<u>\$ 106,106</u>
FUND BALANCES - Beginning	<u>118,504</u>	<u>118,504</u>	<u>125,490</u>	<u>6,986</u>
FUND BALANCES - Ending	<u>\$ 29,404</u>	<u>\$ 29,404</u>	<u>\$ 142,496</u>	<u>\$ 113,092</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREETS FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
State shared revenue	\$ 20,000	\$ 20,000	\$ 12,586	\$ (7,414)
Interest	<u>1,320</u>	<u>1,320</u>	<u>714</u>	<u>(606)</u>
Total revenue	<u>\$ 21,320</u>	<u>\$ 21,320</u>	<u>\$ 13,300</u>	<u>\$ (8,020)</u>
EXPENDITURES				
Street construction	\$ 0	\$ 0	\$ 0	\$ 0
Routine maintenance				
Wages	5,000	5,000	213	(4,784)
Payroll Taxes	385	385	39	(346)
Supplies	12,000	12,000	0	(12,000)
Insurance	1,500	1,500	1,453	(47)
Contracted services	55,000	55,000	8,822	(46,178)
Equipment rental	4,000	4,000	2,331	(1,669)
Miscellaneous	10,000	10,000	0	(10,000)
Winter maintenance				
Wages	1,500	1,500	256	(1,244)
Payroll taxes	<u>115</u>	<u>115</u>	<u>46</u>	<u>(69)</u>
Total expenditures	<u>\$ 89,500</u>	<u>\$ 89,500</u>	<u>\$ 13,163</u>	<u>\$ (76,337)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (68,180)</u>	<u>\$ (68,180)</u>	<u>\$ 137</u>	<u>\$ 68,317</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 15,000	\$ 15,000	\$ 7,500	\$ (7,500)
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 7,500</u>	<u>\$ (7,500)</u>
NET CHANGE IN FUND BALANCES	<u>\$ (53,180)</u>	<u>\$ (53,180)</u>	<u>\$ 7,637</u>	<u>\$ 60,817</u>
FUND BALANCES - Beginning	<u>54,012</u>	<u>54,012</u>	<u>56,343</u>	<u>2,331</u>
FUND BALANCES - Ending	<u>\$ 832</u>	<u>\$ 832</u>	<u>\$ 63,980</u>	<u>\$ 63,148</u>

The accompanying notes are an integral part of this statement.

VILLAGE OF MONTGOMERY
SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FIRE FUND
FOR THE YEAR ENDED FEBRUARY 29, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Actual Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Fire contracts	\$ 17,000	\$ 17,000	\$ 21,466	\$ 4,466
Fire runs	3,000	3,000	3,608	608
Grants	0	80,271	80,925	654
Interest	60	60	64	4
Miscellaneous	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue	<u>\$ 20,060</u>	<u>\$ 100,331</u>	<u>\$ 106,063</u>	<u>\$ 5,732</u>
EXPENDITURES				
Wages	\$ 7,000	\$ 7,000	\$ 7,268	\$ 268
Payroll taxes	1,000	1,000	2,021	1,021
Supplies	10,000	10,000	6,257	(3,743)
Medical supplies	1,000	1,000	902	(98)
Contracted services	600	600	410	(190)
Communications	750	750	426	(324)
Gas and oil	2,500	2,500	3,247	747
Insurance	11,500	11,500	11,670	170
Utilities	3,500	3,500	3,547	47
Repairs and maintenance	6,000	6,000	2,629	(3,371)
Training	2,000	2,000	2,775	775
Dues and fees	1,000	1,000	464	(536)
Capital outlay	<u>39,293</u>	<u>119,564</u>	<u>115,774</u>	<u>(3,790)</u>
Total expenditures	<u>\$ 86,143</u>	<u>\$ 166,414</u>	<u>\$ 157,390</u>	<u>\$ (9,024)</u>
REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (66,083)</u>	<u>\$ (66,083)</u>	<u>\$ (51,327)</u>	<u>\$ 14,756</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	\$ 22,500	\$ 22,500	\$ 28,300	\$ 5,800
Operating transfers out	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>\$ 22,500</u>	<u>\$ 22,500</u>	<u>\$ 28,300</u>	<u>\$ 5,800</u>
NET CHANGE IN FUND BALANCES	<u>\$ (43,583)</u>	<u>\$ (43,583)</u>	<u>\$ (23,027)</u>	<u>\$ 20,556</u>
FUND BALANCES - Beginning	<u>38,800</u>	<u>38,800</u>	<u>48,126</u>	<u>9,326</u>
FUND BALANCES - Ending	<u>\$ (4,783)</u>	<u>\$ (4,783)</u>	<u>\$ 25,099</u>	<u>\$ 29,882</u>

The accompanying notes are an integral part of this statement.

Bailey, Hodshire & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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To the Village Council
Village of Montgomery

In planning and performing our audit of the governmental activities and each major fund of the Village of Montgomery as of and for the year ended February 29, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Financial Statement Preparation

The Village does not have procedures in place to prepare financial statements in accordance with accounting principles generally accepted in the United States of America, including procedures to record accruals for revenue and expenditures, to track changes in capital assets, and to present required financial statement disclosures. We recognize the time and expense that would be required to obtain the necessary training and expertise to perform this task internally; therefore, we recommend that the Village continue to carefully review the draft financial statements and notes prepared by the external auditors prior to approving them and accepting responsibility for their content and presentation.

Payroll Tax Reporting

The Village has not had procedures in place to ensure timely filing of payroll tax returns (Form 941) with the Internal Revenue Service. This resulted in significant penalty and interest charges due to several years of returns that were filed late. It is our understanding that Village personnel are now aware of and complying with the applicable payment and filing deadlines.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we do consider the significant deficiencies described above to be material weaknesses.

In addition, we noted certain other matters involving the internal control and its operation that we did not consider to be significant deficiencies or material weaknesses, but are opportunities for improvement:

Annual Budget

There are specific statutory requirements regarding the notice for the annual public hearing on the budget, as well as requirements of The Americans With Disabilities Act. We recommend that the Village review the requirements prior to publishing future notices. The public hearing should also be fully documented in the Council Minutes, with a general description of public comment made (if any).

There were also a few line items for which expenditures exceeded the budgeted amounts. We recommend that the Village monitor the budget carefully and continue to make amendments when necessary to avoid over-expenditure.

Credit Card Policy

Michigan law requires government units to adopt a formal Credit Card Policy if credit cards are issued in the name of the unit. It is our understanding that the Village has now adopted a suitable policy.

Investment Policy

The Village should revise the existing investment policy to comply with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 40.

This communication is intended solely for the information and use of the Village Council and others within the Village, and is not intended to be and should not be used by anyone other than these specified parties.

Bailey, Hodshire & Company, P.C.

Jonesville, Michigan
December 18, 2008